

Minnesota's Small Business Environmental Improvement Loan Program



Minnesota Pollution Control Agency
Small Business Assistance Program

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Presentation Overview

- **Program Beginnings**
- **How the Program Works**
- **Who's Using The Program**
- **Measuring Program Success**
- **Some Problems**
- **Things We'd Do Different**
- **Questions**



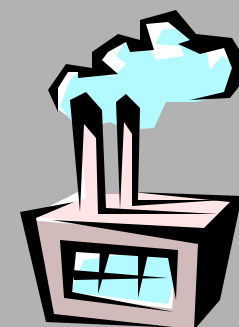
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Program Beginnings

Tale of Two Programs:

- **Hazardous Waste Generator Loan Program**
 - Site Investigations and Cleanups
- **Small Business Environmental Loan Program**
 - Air Quality Projects Only
 - Equipment Purchases



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Different Utilization:

– Hazardous Waste Generator Loan Program

- Not Popular - Under-utilized
- \$500,000 Account Balance



– Small Business Environmental Loan Program

- Very Popular - High-utilization
- \$250,000 Account Balance Drained to Zero

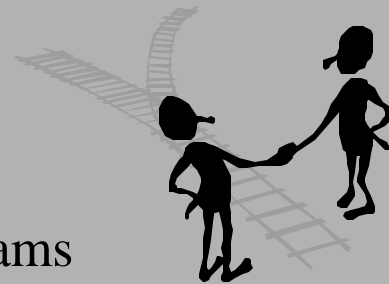


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Legislative Merger Creates A Hybrid Program; The Small Business Environmental Improvement Loan Program

- **Multi-media Based**
 - Less Prescriptive than Previous Two Programs
- **\$750,000 Appropriation**
 - \$250,000 Air + \$500,000 Hazardous Waste Account Merger
 - Created Discreet Revolving Account Managed by MPCA

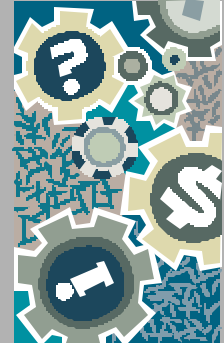


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How The Program Works

- **Eligibility Criteria:**
 - **Must be Small Business Corporation, Sole Proprietorship, Partnership or Association**
 - Must Be an Existing Business - No Start-ups
 - Have Less Than 50 Full-time Employees
 - Have an After-tax Profit of Less Than \$500,000
 - Have a Net Worth of Less Than \$1,000,000
 - Must Be Able to Demonstrate an Ability to Repay the Loan



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- **Eligible Projects:**

- **Pre-approved Capital Equipment Purchases That Meet or Exceed Environmental Standards**

- Dry-to-Dry Dry Cleaning Machines
 - Aqueous Parts Washers
 - HVLP Spray Guns

- **Pre-approved Site Investigations and/or Cleanups**

- Phase 1 Investigations
 - Asbestos Removal

- **All Projects Must be Pre-approved!!!**

- Projects That Were Begun or Completed Prior to Receiving Approval from the MPCA ARE NOT Eligible!



• **Loan Conditions:**



- **Loan Amounts Between \$1,000 and \$50,000**
 - No Match Required
 - Taxes and Installation Costs can be Included
- **Interest Rate of 4% or 1/2 the Prime Rate**
 - Interest Rate is Set When Loan is Awarded
- **Repayment Term of Not More Than 7 Years**
 - Term Will Vary Depending on Amount of Loan and Borrower's Ability to Repay
- **Collateral is Required**
 - On New Equipment Purchases the Equipment Itself is Used
 - Investigations and Cleanups Require "Practical" Securities



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- **Application Process:**

- **Written Applications Available From Ombudsman**

- Complete and Return to Ombudsman

- **Loans Awarded Quarterly**

- Application Deadlines January 1, April 1, July 1 and October 1

- **Number of Loans Awarded Varies**

- Based on Number of Applications Received and Available Funds

- **Screening Committee Determines Loan Awards**

- Composed of Financial and Environmental Professionals
 - Evaluation Criteria are Dynamic
 - Sector Targeting is Common



- **After the Loan is Awarded:**
 - **45 Day Processing Period**
 - Loan Documents Signed by Borrower then State Officials
 - **Loan Funds Paid Directly to Vendor/ Contractor**
 - Borrower Approves Payment
 - **Monthly Payment Coupons**
 - 10% Late Fee Assessed After 15 Days
 - **Default Loans Referred to MN Collection Enterprise**
 - Strong-arm Branch of MN Department of Revenue
 - **Post-Project Evaluation Requested**
 - One Year After Project Completion



Who's Using the Program?

- **Borrower Profile (31 Loans Total):**
 - **Dry Cleaners (25 Loans)**
 - Equipment Purchases (25)
 - **Automotive (4 Loans)**
 - Investigations (2) / Aqueous Washer (1) / Antifreeze Recyc. (1)
 - **Furniture Manufacturing (1 Loan)**
 - HVLP Spray Guns - Aqueous Finishing (1)
 - **Metal Plater (1 Loan)**
 - Vapor Degreaser (1)

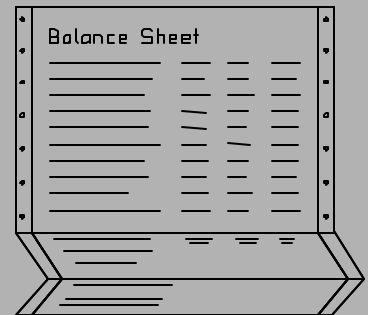


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- **Program Financials:**

- **\$750,000 Original Appropriation**
 - From Merger of Old Programs
- **\$1,100,000 In Loans Through January 2000**
 - Total of 31 Loans
- **Average Loan Amount = \$34,000**
 - Low = \$3,000 / High = \$50,000
- **Account Balance on June 1, 2000 = \$135,000**
 - Amount Available for Awards in July
- **Monthly Program Income = \$15,000**
 - Principle and Interest Payments

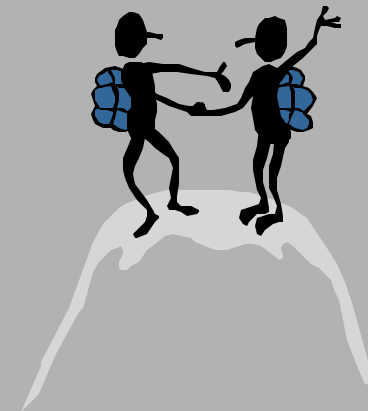


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Measuring Program Success!

- **We Do It Because It's Important!!!**
 - **Accountability**
 - For Management and Stakeholders
 - It's Taxpayers' Money
 - **Helps Program Marketing**
 - Gets Other Businesses Interested
 - Good Press gets Printed Easily
 - **Helps Chart Program Direction**
 - Learn from Loans - Which Ones Work, Which Ones Don't
 - Adjust Program Targeting



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- **Measures We Use:**
 - **Mandatory Project Evaluations**
 - Due One Year After Project Completion
 - Built into Every Loan Agreement
 - We Provide Evaluation Forms
 - Measure Environmental and Economic Benefits
 - **Program Financial Health**
 - Track Debt Service Statistics
 - Track Financial Growth/Net Worth of Program
 - **Independent Case Studies**
 - Detailed Project Reviews and Write-ups
 - Uncover and Document Hidden Project Benefits



• **Program Success Examples:**

– **Mandatory Project Evaluations**

- Evaluated Loans to 22 Dry Cleaners
- 75% Reduction in Annual Solvent Usage
- 70% Reduction in Annual Hazardous Waste Generation
- Reductions in Water, Natural Gas and Electricity Usage
- Average Annual Cost Savings of \$5,000

– **Program Financial Health**

- 30 of 31 Loans in Good Standing
- Late Fee Occurrence Less Than 5% on Average
- Program's Net Worth has Grown by Over \$300,000



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- **More Examples of Program Success:**

- **Independent Case Study - Metal Plater**

- P2 Case Study for New Vapor Degreaser
 - Case Study Performed by Dedicated P2 Student Worker
 - Project Results:
 - Reduced Paperwork - No Form R Needed
 - 36% Reduction in Solvent Usage = \$2,280 Savings
 - 250,000 Gallon Reduction in Water Usage = \$750 Savings
 - Reduced Regulatory Fees = \$250 Savings
 - Total Annual Savings = \$3,300
 - Case Study Results Publicized in Press Releases, Newsletters, Trade Journals and Internet



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Some Problems...

- **Problems We've Had:**
 - **Start-up Businesses**
 - Unproven Financial Track Records
 - Collection on Default Loans is Very Cumbersome
 - New Program Policy - No Start-ups
 - **Refinance Requests**
 - Not Technically Allowed by Law
 - Creates Unserviceable Demand
 - All Projects Must be Pre-Approved



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- **More Problems:**

- **Administrative**

- State Financial Tracking System Does Not do Loans
 - Requires Manual Interest and Payment Tracking
 - Program Growth Creating Burden on Loan Officer

- **Targeting New Sectors**

- New Sectors Slow to Utilize Program

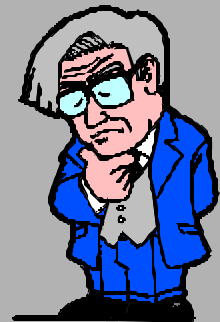
- **Securing Additional Funding**

- Two Failed Budget Initiatives
 - Tabled by Management
 - MN State Government Very Fiscally Conservative



Things We'd Do Different

- **Things We'd Change (aka, Suggestions):**
 - **Retain an Administrative Fee from Loan Account**
 - Not Allowed Under Enabling Statute
 - 5-10% of Loan Amount to Cover Administrative Costs
 - **Assign Full Time Staff to Program**
 - Current Program is “Wedged” into Position Descriptions
 - Would Enhance Program Development
 - Better Marketing
 - Better Measures



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- **More Changes:**

- **Create a Reliable Supplemental Funding Source**

- To Help Grow the Program's Account
 - Possible Sources:
 - Enforcement Fines
 - Discretionary Agency Allocations
 - Supplemental Enforcement Projects (SEPs)



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Questions?

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